

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  DISAGGREGATION OF FEDERAL HIGH-COST SUPPORT FOR RURAL CARRIERS	DOCKET NO. USP-01-2
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**ORDER ESTABLISHING PROCEDURES FOR  
DISAGGREGATION OF FEDERAL HIGH-COST SUPPORT FUNDS**

(Issued September 7, 2001)

On May 23, 2001, the Federal Communications Commission (FCC) issued its “Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256” (the FCC Order). The FCC Order generally adopted the recommendations of the Federal-State Joint Board on Universal Service and the Rural Task Force (RTF) regarding reform of universal service funding for rural carriers. The FCC Order delegates certain responsibilities to state regulatory authorities such as the Utilities Board (Board).

One of those delegated responsibilities will be the subject of this docket: Each rural carrier will have to make an election, filed with the Board, regarding disaggregation of its universal service funding, and the Board will have to certify those elections to the FCC and the Universal Service Administrative Company

(USAC) by March 12, 2002. With this order, the Board will establish procedures for the fulfillment of this delegated duty.

Under the existing federal high-cost support system for rural carriers, the support is averaged across all lines served by a carrier in its study area. Thus, support on a per-line basis is the same even though costs vary among customers. The support is portable, so if a CLEC competes for and wins customers, the CLEC gets the support associated with those customers. This tends to create an artificial incentive for competitive entry in the relatively low-cost areas (in towns, for instance) and a disincentive to compete for the higher-than-average-cost customers (the most rural customers). As part of its reform, the FCC adopted the RTF recommendation that rural carriers should have the option of disaggregating their high-cost universal service support into geographic areas smaller than the study area. This would let the carriers target the support to the highest-cost lines, reducing the distortion of the incentives for competitive entry.

The RTF recommended that rural carriers should have flexibility in the manner in which the support is disaggregated and targeted, due to the widely varying characteristics and operating environments they face. Accordingly, the RTF recommended, and the FCC adopted, a three-path disaggregation system. Each carrier is required to elect one of the paths within 270 days of the effective date of the FCC Order. Thus, the deadline for election is March 12, 2002.

Path One allows the carrier to certify to the Board that the carrier does not elect to disaggregate its support. The election would be effective upon filing and

would continue for at least four years unless the Board requires disaggregation, on its own motion or upon petition by any interested party, including the incumbent carrier. This option is addressed to carriers that conclude disaggregation is not an economical choice; perhaps because of the nature of the carrier's service territory, its specific cost characteristics, or a lack of any realistic prospect of competition.

Path Two is available to carriers that want Board review and approval of an individual company disaggregation plan. A carrier choosing this path would file its plan with the Board, which would have to hold workshops, hearings, or other appropriate administrative proceedings in which interested entities could participate and then issue an order setting out the disaggregation method, the zones, and the per-line support amount for each category of support in each zone. The plan would be effective until the Board approves a new plan, but would be subject to change or challenge at any time. This option offers the carrier maximum flexibility, but the cost of Path Two is likely to be relatively high, so only carriers faced with unusual circumstances would normally be expected to pursue this option.

Path Three permits carriers to self-certify a method of disaggregation with the Board. These disaggregating plans would have to meet certain minimum FCC requirements:

1. Support must be disaggregated into no more than two cost zones per wire center;
2. If a disaggregation plan has been previously adopted, the new plan must use the same rationale;

3. The rationale must be described in some detail (including the methods and data and a discussion regarding compliance) and reasonably related to the cost of providing service in each zone for each category of support; and

4. If the plan uses a benchmark to determine support amounts, the benchmark must be explained, supported, and consistent with the manner in which the total study area level of support is derived.

The plan must then show the per-line amount of support for each category of support in each zone. (The supporting information will be posted on USAC's web site so potential competitors can see the available support and challenge the plan if they believe it produces unreasonable results.)

A carrier's election of Path Three would become effective upon filing of the certification and would continue for at least four years unless the Board requires disaggregation on different terms, acting on its own motion or upon petition from any interested party, including the affected carrier.

Path Three is intended to permit rapid implementation of disaggregation plans with reduced administrative and cost burdens on carriers and states. At the same time, it attempts to strike a reasonable balance between flexibility and ensuring support is disaggregated in a competitively neutral manner. Normally, one would expect that most rural carriers in Iowa would opt for Path Three, allowing them to adopt a standardized disaggregation plan at the lowest administrative cost. However, there is a restriction on the availability of Path Three. In study areas in which a competitive carrier has been designated as an eligible telecommunications

carrier (ETC) prior to the effective date of the FCC rules, the incumbent may elect Path Three only to the extent it is self-certifying a disaggregation plan already approved by the state. In all other instances, the incumbent must proceed under Path Two. (FCC Order at paragraph 155.) This may make Path Three unavailable to some rural carriers, as some competitive carriers have been designated as ETCs in Iowa. Each rural carrier opting for Path Three will be required to certify that no competitive carrier has been designated as an ETC in any part of the rural carrier's study area.

The certification of carrier disaggregation plans is due at the FCC on or before March 12, 2002; if the Board is to process any significant number of plans, and particularly if a number of Path Two plans must be reviewed, it will be necessary to proceed under the Board's existing general procedural rules, as modified and amplified by this order. Accordingly, the Board will order and direct the affected rural carriers in Iowa to make an election and file with the Board as follows:

1. If a carrier takes Path Two (custom disaggregation), it must file its plan with the Board no later than November 30, 2001, to allow time for Board review proceedings (whatever form they may take, which cannot be determined until the number of Path Two filings is known).
2. If a carrier takes Path Three (standard disaggregation), it must self-certify its plan to the Board (and USAC) no later than February 11, 2002. The plan must be filed with the Board and USAC, as well.

3. If a carrier takes Path One (no disaggregation), it must certify that decision to the Board (and USAC) no later than February 11, 2002.

These deadlines should permit the Board to make the necessary certification to the FCC and USAC by March 12, 2002.

In order to simplify and standardize the path election process as much as possible, the Board proposes the following filing guidelines for carrier certifications:

Proposed filing guidelines for carriers selecting Path One, Two, or Three should include the following information:

- (a) Each affidavit filed should be titled "Certification of Disaggregation Plan for Federal Universal Service Funds by [Company Name]" (the company name must be the same name shown on the carrier's tariff as filed with the Board);
- (b) Name, address and telephone number of the individual(s) to be contacted concerning the plan being filed;
- (c) The Study Area Code (SAC) number that has been assigned to the carrier under the Federal Universal Service Fund program;
- (d) A statement declaring the selected path for disaggregation; and
- (e) The affidavit must be executed by an authorized corporate officer.

Carriers selecting Path Two or Three should file additional information including:

- (f) A listing of the zones with the per line support amount for each category of support (high-cost loop support, LSS, and LTS) in each zone;
- (g) A description of the rationale used including the methods and data for targeting support; if benchmarks are used, they should be identified and supported.
- (h) A description of each zone that is adequate to permit competitors to identify the support available for each line; and

(i) Maps meeting the requirements of IAC 22.20(3) with each zone identified.

Carriers selecting Path Three should file additional information including:

(j) A statement within the affidavit indicating that support would be disaggregated to the wire center level or into no more than two cost zones per wire center. The statement may also indicate a different level of disaggregation if it has been previously determined by the Board to be appropriate; and

(k) A discussion of how the plan complies with self-certification guidelines in the FCC Order.

The Board emphasizes that these are only proposed guidelines. The Board will direct its staff to hold a workshop, open to any interested persons, to discuss these proposed guidelines, along with any other issues that may arise in connection with carrier elections regarding disaggregation. The workshop may also be used to receive comment from the public regarding the FCC's recent request for public comment regarding a possible expansion of the definition of "universal service," see "Public Notice," CC Docket No. 96-45, FCC 01-J-1, released August 21, 2001.

**IT IS THEREFORE ORDERED:**

1. Rural telecommunications carriers in Iowa receiving federal universal service funding are required to make a disaggregation election, as described in this order, and certify their election to the Board by the appropriate date established in this order.

2. A workshop is scheduled for Thursday, September 13, at 1:30 p.m. in the Board's hearing room to discuss the Board's proposed guidelines, as set forth in

this order. The workshop will be conducted by Board staff. All interested persons are invited to attend. Any questions regarding the workshop may be addressed to John Ridgway, Manager, Telecommunications, Iowa Utilities Board, 350 Maple Street, Des Moines, Iowa 50319-0069; phone (515) 281-4034; e-mail address: [john.ridgway@iub.state.ia.us](mailto:john.ridgway@iub.state.ia.us).

**UTILITIES BOARD**

/s/ Allan T. Thoms

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Mark O. Lambert

Dated at Des Moines, Iowa, this 7<sup>th</sup> day of September, 2001.